

AP Econ Test I: Supply and Demand

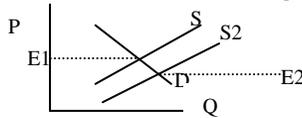
1. An increase in the price of gasoline will MOST LIKELY cause the demand curve for tires to change in which direction?

- A. Left because gasoline and tires are substitutes.
- B. Left because gasoline and tires are complements.
- C. Right because gasoline and tires are complements.
- D. Right because gasoline and tires are substitutes.
- E. Right because the price of gasoline makes consumers poorer and not able to afford tires.

2. If the demand for a good or service decreases, the equilibrium price and quantity are most likely to change in which of the following ways?

	Price	Quantity
A.	Increase	Increase
B.	Increase	Decrease
C.	Decrease	Decrease
D.	Decrease	Increase
E.	No Change	No Change

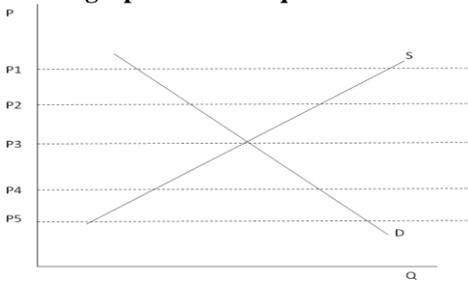
For Question 3 use the following graph:



3. The move from E1 to E2 in the graph is the result of

- A. An increase in demand.
- B. A decrease in demand
- C. An increase in supply
- D. A decrease in supply
- E. An increase in quantity supplied and demanded.

Use the graph below for question 4.



4. In the graph above, a shortage is first represented by any price below:

- A. P1
- B. P2
- C. P3
- D. P4
- D. P5

5. A decrease in the price of silicon chips used to make computers and increased production of user-friendly software will affect the price and quantity of computers in which of the following ways?

	Price	Quantity
A.	Increase	Increase
B.	Unknown	Decrease
C.	Increase	Unknown
D.	Decrease	Decrease
E.	Unknown	Increase

6. If people begin to favor romance novels to a greater degree than in the past, the demand curve for romance novels

- A. shifts right
- B. shifts left
- C. shifts down
- D. shifts up
- E. no change

7. The *ceteris paribus* assumption is used to

- A. make economic theory more realistic.
- B. make economic analysis more realistic.
- C. avoid the fallacy of composition.
- D. focus economic analysis on one variable.
- E. expand PPCs beyond their two-good setup.

8. If the government imposes a price floor there will be

- A. a shortage because the equilibrium price will be higher.
- B. a shortage because the equilibrium price will be lower.
- C. a surplus because the equilibrium price will be higher.
- D. a surplus because the equilibrium price will be lower.
- E. no change in the market.

9. “As the price of apples goes up, the demand for apples goes down.” The author of this statement:

- A. implies that price and demand are unrelated
- B. uses the word “demand” when he should use “supply.”
- C. uses the word “demand” when he should use “demand curve”
- D. implies that price and demand are complements.
- E. uses the word “demand” when he should use “quantity demanded”

10. Specifically speaking, in economic terms all of the factors of production are represented by

- A land, labor, capital, and money
- B human resources, natural resources, capital resources, and entrepreneurship
- C human resources, natural resources, capital resources, and time
- D land, labor, natural resources, renewable resources, non-renewable resources, and people
- E human resources, physical capital, entrepreneurship, and government resources

11. An improvement in the technology used in the production of automobiles and an increase in the need for automobiles will most likely cause the price and quantity of automobiles to change in which of the following ways?

	Price	Quantity
A.	Increase	Increase
B.	Increase	Decrease
C.	Unknown	Increase
D.	Unknown	Unknown
E.	Decrease	Increase

12. An increase in Peanut Butter prices will cause the demand curve for jelly to shift in which of the following ways?

- A. to the right because peanut butter is a product that the government says is good for you.
- B. to the right if jelly is purchased by people with lower incomes.
- C. to the right if peanut butter and jelly are complementary goods
- D. to the left if peanut butter and jelly are complementary goods
- E. to the left if peanut butter and jelly are substitutes

13. Scalpers may sell tickets to plays, sporting events, and concerts above the original price of the ticket because

- A. at the ticket price there is a surplus of seats
- B. at the ticket price there is a shortage of good seats
- C. people enjoy paying more for the tickets
- D. venues get part of the profits from scalpers
- E. the quantity demanded has increased with the new price

14. In America, equilibrium price and quantity are typically established by

- A. demand only
- B. supply only
- C. both demand and supply in the open market
- D. Government-supply and open market demand
- E. none of the above.

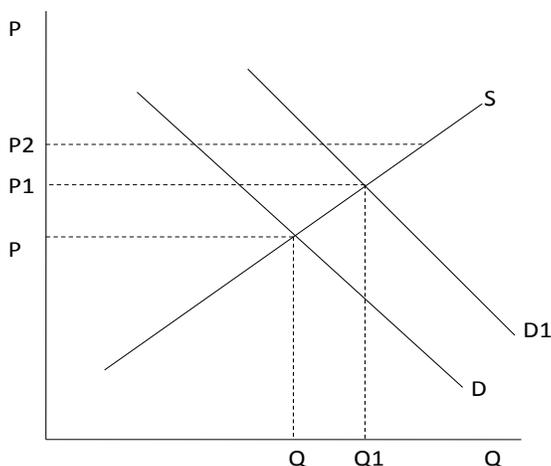
15. A demand curve will eventually cross the price axis because

- A diminishing marginal utility will eventually go to zero.
- B at some high price, the quantity demanded is zero.
- C at high prices people buy more goods
- D even at a very low price, people can only buy a finite number of goods.
- E at some low price, the quantity demanded is zero.

16. All of the following may cause a supply curve to shift EXCEPT:

- A. A government imposed quota
- B. A change in technology.
- C. A change in consumer's expectations.
- D. A new business tax.
- E. A change in the price of resources.

Use the following graph for numbers 17 – 19.



17. What is the result of moving from curve D to D1?

- A. people are now paying a higher price for fewer goods.
- B. people are now paying a lower price for more goods.
- C. people are now paying a lower price for fewer goods.
- D. people are now paying a higher price for more goods.
- E. people are paying a higher price for the same number of goods.

18. What is occurring if the price is set at P2?

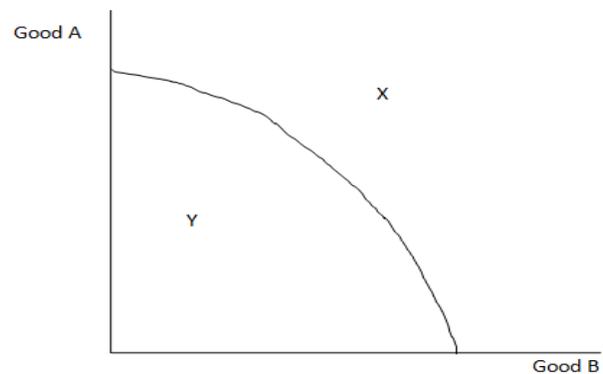
- A. shortage
- B. surplus
- C. unattainable
- D. inefficiency
- E. efficiency

19. If the price is set at P2, competitive market forces would likely

- A. cause the price to fall
- B. cause the price to rise
- C. have no effect on the price
- D. cause the supply curve to shift left
- E. cause the supply curve to shift right

20. The Hatfields and McCoys have been feuding for years. In the Hatfield Family, a unit of cloth is worth .8 units of corn. At the McCoy's, a unit of cloth is worth 1.25 units of corn. The Hatfields however produce more of both cloth and corn because they have better resources. Despite the feud is there any basis for specialization and trade?

- A. No, the McCoys bring no net value to the community.
- B. No, the opportunity costs are the same for both families.
- C. Yes, the Hatfields have absolute and comparative advantage in corn.
- D. Yes, the Hatfields have comparative advantage in both goods.
- E. Yes, the Hatfields have absolute and comparative advantage in cloth.



21. Which BEST explains point Y on the graph above?

- A. A natural disaster has wiped out most of the country's natural resources.
- B. Workers are overproducing the goods
- C. The goods are not being sold quickly
- D. The country is wasting potential resources
- E. The country is producing at a non-sustainable rate

22. As income rises, demand for goods

- A. is not affected, only quantity demanded
- B. rises
- C. falls
- D. falls by the same amount of the rise in income
- E. is not affected, only supply changes

23. If substitutes for a good are cheap and easily available, the good will tend to have

- A. elastic demand
- B. inelastic demand
- C. income effect
- D. substitution effect
- E. greater quantity demanded

24. Joe says that a lower price will cause demand to fall. Joe is

- A correct, that is the law of demand.
- B incorrect, a lower price will change the supply
- C correct, a lower price will change quantity demanded.
- D incorrect, a lower price will change quantity demanded
- E incorrect, Joe means to say a "higher" price will cause demand to fall.

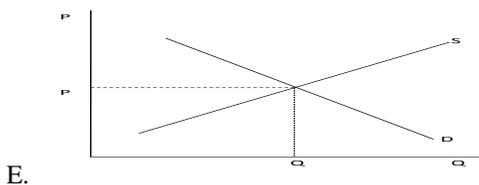
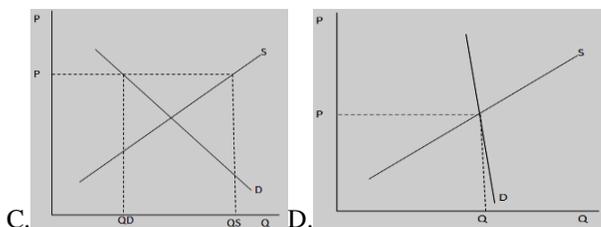
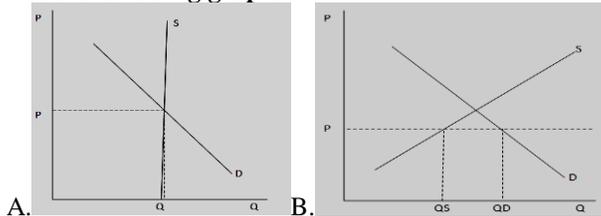
25. A movie theater charges less for its weekday afternoon shows than for its weekend nighttime shows. Using supply and demand analysis, the BEST explanation for this is

- A. Demand is low during the week, yielding a lower equilibrium price.
- B. Demand is higher during the week, yielding a lower equilibrium price.
- C. Supply is higher during the week, yielding a lower equilibrium price.
- D. Neither supply or demand changes, the price is relative to the quantity.
- E. They make higher profits during the week so they can supply less.

26. Comparative advantage is described as a situation where a person or country

- A. can make more of a good with a set amount of resource
- B. makes a good with lower opportunity cost than another country.
- C. specializes in producing only one good
- D. trades a good they like to produce for another good
- E. must give up one product to get another

Use the following graphs for numbers 27 – 30.



E.

27. Which graph above demonstrates a shortage?

- A. A
- B. B
- C. C
- D. D
- E. E

28. Which graph demonstrates a surplus?

- A. A
- B. B
- C. C
- D. D
- E. E

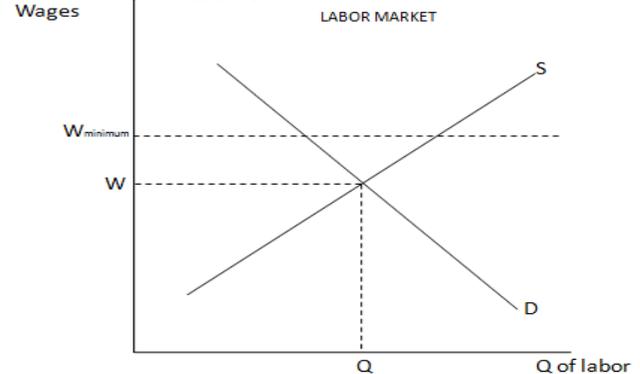
29. Which graph demonstrates an inelastic demand curve?

- A. A
- B. B
- C. C
- D. D
- E. E

30. Which graph demonstrates a government imposed supply restriction?

- A. A
- B. B
- C. C
- D. D
- E. E

Use the following graph for numbers 31 and 32.



31. In the labor market graph above, which of the following would cause a rightward shift in the demand curve?

- A. Companies need help stocking shelves for the holidays
- B. A huge population boom in the area
- C. Consumers purchase fewer goods
- D. Companies replace workers with machines
- E. Several companies in an area shut down production

32. Suppose the government imposes a minimum wage at W_{minimum}, which BEST describes what would happen?

- A. There would be a shortage of labor, causing unemployment in this market.
- B. There would be a surplus of labor, causing unemployment in this market.
- C. There would be no effect on the industry.
- D. There would be a surplus of jobs, causing unemployment in this market.
- E. There would be a surplus of tax dollars, causing fewer people to work.

33. Which would shift a PPC outward (to the right)?

- A. a decrease in technology restrictions
- B. a decrease in the number of consumers.
- C. a decrease in worker productivity
- D. a decrease in international trade
- E. a decrease in the availability of resources

34. The link between scarcity and opportunity costs can be described as

- A non-existent; the two terms are mutually exclusive
- B an indirect relationship; as scarcity increases, opportunity cost decreases.
- C cause and effect; scarcity causes choices, which incur costs.
- D volatile; amounts of scarcity and opportunity costs change constantly.
- E cause and effect; opportunity costs lead to scarcity of choices over time.

35. If the government imposes an income tax, what effect will that have on the open market?

- A. Supply will decrease because of the government interference.
- B. Supply will increase because of the government interference.
- C. Supply will increase because companies will receive more money because of the tax.
- D. Demand will increase because people will have more income.
- E. Demand will decrease because people will have less income to spend because of the tax.

Use the following chart for questions 36 and 37.

	1 DVD Player	1 iPod
Hilde	60 minutes	120 minutes
Jo	30 minutes	90 minutes

36. Which statement is true concerning absolute advantage?

- A. Hilde has absolute advantage in both goods.
- B. Hilde has absolute advantage in iPods only.
- C. Jo has absolute advantage in DVD Players only.
- D. Jo has absolute advantage in iPods only.
- E. Jo has absolute advantage in both goods.

37. If the company that employs Hilde and Jo wanted to make the most efficient use of their time then

- A. Hilde should make DVD players while Jo makes iPods.
- B. Jo should make DVD players while Hilde makes iPods.
- C. Jo should make both iPods and DVD players alone.
- D. Hilde should make both iPods and DVD players alone.
- E. Jo should be replaced with another worker like Hilde.

38. If demand increases, but supply decreases

- A. Price is unknown, quantity is unknown
- B. Price will increase, quantity will increase
- C. Price will decrease, quantity will decrease
- D. Price will decrease, quantity will increase
- E. Price will increase, quantity may not change

39. If the price of milk increases, what will happen in the cereal market?

- A. Demand for cereal will decrease if they are complements.
- B. Demand for cereal will increase if they are complements.
- C. Demand for cereal will not change.
- D. Supply for cereal will increase if they are complements.
- E. Supply for cereal will decrease if they are complements.

40. If Japan can produce 300 cars or 600 computers and the US can produce 300 cars or 400 computers, then which scenario is best for both countries assuming both want to trade with each other?

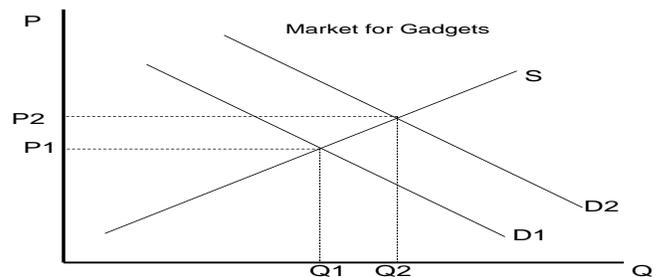
- A Japan exports cars and computers
- B US exports cars and computers
- C Both countries export cars and import computers
- D Japan exports computers and imports cars
- E US exports computers and imports cars

41. All of the following might reasonably be expected to shift the demand curve for beef to a new position EXCEPT:

- A. a decrease in the price of beef
- B. a change in people's taste with respect to beef.
- C. an increase in the money incomes of beef consumers.
- D. a widespread advertising campaign by the producers of a product competitive with beef, such as pork.
- E. expectations that beef prices will fall in the future

42. A capital-intensive industry would rely MOST heavily on which of the following resources

- A machines
- B unskilled labor
- C renewable resources
- D time-sensitive information
- E beliefs and ideas of employees



How is the law of supply represented in the graph?

- A. The increase in Demand caused the Supply to increase from Q1 to Q2.
- B. As quantity supplied increased from Q1 to Q2, price increased from P1 to P2.
- C. The law of supply is not represented in the graph because it is a demand shift.
- D. The increase from D1 to D2 caused supply to increase from Q1 to Q2.
- E. As price increases from P1 to P2, quantity supplied increased from Q1 to Q2.